

Minutes of the meeting held on June 2, 2022

Present: Francis Murphy – Chairman, Michael Gardner, John Shinkwin, Joseph McCann, David Kale, Ellen Philbin, Rafik Ghazarian and Chris Burns.

Left Early: Nadia Chamblin-Foster (left after Rockwood presentation)

The meeting was called to order at 11:00 AM. This was a hybrid meeting held in-person at 125 CambridgePark Drive, and via Webex videoconference. The Webex was digitally recorded.

Agenda Item #1 – Segal Marco Advisors

Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending March 31, 2022. In the first quarter, Equities, Fixed Income and Hedge Funds all showed losses. Real Estate and Private Equity generated good returns. High inflation and the Russia-Ukraine war weighed on the worldwide economy.

Kale asked to be kept informed as the actuarial valuation moves forward. He noted that the new City Manager may wish to review the valuation.

Ghazarian reviewed the system's current asset allocation. The system is largely in-line with target allocations. Ghazarian suggested that once the annual appropriation payment is received, that money could be used to shift additional money into the fixed income sleeve. The International Fixed Income portfolio, held by Brandywine, has now been fully liquidated. Ghazarian reminded the Board that the last asset allocation study showed that this asset class was likely to be a significant drag on performance. The system has shifted more money into Bank Loans, which Segal believes will be more likely to generate strong returns.

Overall, the total fund was valued at \$1.773 billion, representing a loss of 2.7% during the quarter. The fund outperformed the policy index return of -3.3%. Losses continued in April, with the system down approximately 4% for the month. Preliminary reports show that returns appear to be flat for the month of May. The system continues to perform well over the long term, returning 9.5% annually over the last ten years. Aberdeen performed very poorly, returning -16.6% over the last year, vs. the benchmark return of -11.4%.

Ghazarian reviewed a written analysis from Segal of candidates for the Emerging Markets Equity search. There were 33 responses to the RFP. There were no responses from women/minority owned firms. Ghazarian reviewed Segal's evaluation criteria and ratings system. Segal rated four managers as Highly Advantageous, including the incumbent abrdn/Aberdeen. Segal also gave its highest rating to Acadian, Martin Currie and RBC. Ghazarian noted that the RBC proposal comes from a completely different team than the RBC/Polaris team that currently manages the system's International Equity portfolio. Segal rated four other managers as Advantageous. They are Allspring, LSV, Sands Capital and William Blair. He noted that Allspring has previously been rated as Highly Advantageous but was downgraded due to an organizational change. The other three managers are also recommended by Segal but were not given the highest rating due to each portfolio having a style bias to either growth or value, although the purpose of the search was for a core manager. All other managers were rated as either Not Advantageous or Unacceptable. Ghazarian stated that for Segal's fully managed accounts, they currently use RBC, Allspring and Sands Capital. Over the last 7-10 years, Acadian and RBC have generated better returns than Aberdeen. They have also generated those returns with slightly less risk than Aberdeen.

Joanne Irvine and Matt Murdoch represented Aberdeen. A written portfolio review was submitted to the Board. There have been no changes to the emerging markets portfolio team. Murdoch stated that the last six months have been difficult for the portfolio. He noted that the war in Ukraine has resulted in volatile commodities prices, and that a resurgence of COVID in China led to lockdowns in major cities. He stated that he was optimistic that the fund could use the current drawdown in the stock market as a buying opportunity, with Emerging Markets stocks now trading at very low valuations. Murdoch discussed the firm's diversity initiatives. By 2025, the firm has committed to have at least 40% women at the level of Investment Director and above. Currently, 36% of this level is women. Irvine discussed the impact of the war in Ukraine. She noted the Russian invasion has driven much higher oil prices, disrupted global good supplies and triggered a unified response from Western nations to ostracize Russia. She stated that she expected the war to continue, and sanctions against Russia to remain in place for the foreseeable future. In 2021, Aberdeen underestimated the severity of inflation and also missed shift to an environment favoring value stocks. The portfolio significantly underperformed its benchmark through April. Irvine stated that there has been some recovery in May.

The portfolio was overweight in Russia at the time of the invasion of Ukraine. Irvine stated that at that time, they saw good value in Russia, with high-quality energy companies. They attempted to sell some stocks in late February and were able to significantly trim their position. The firm has now written down the value of all remaining Russian assets to zero. These assets include LNG exporters, but they cannot now be sold due to sanctions. Aberdeen also had an overweight position in China. As China has moved to implement strict lockdowns to prevent the spread of COVID, this position lost value. Finally, the firm was hurt by an underweight position in Saudi Arabia, as many Middle East oil companies rallied as Western nations attempted to cut imports of Russian oil.

Aberdeen maintains the underweight to Saudi Arabia, feeling that those firms are now significantly overvalued. On a sector basis, the portfolio is now overweight to IT companies and Financials. The portfolio is not strictly an ESG fund, although Aberdeen does track ESG characteristics. The firm has somewhat higher ESG rankings than the index. Looking ahead, Aberdeen is anticipating moves to shorten supply chains by moving manufacturing closer to home. The firm now has an overweight position in Mexico because of this.

Elise Jadhav and Maura Neely represented Wellington Management. A written portfolio summary was reviewed by the Board. Jean Hynes has now taken over as CEO and has been in that position for nearly a year. The firm is continuing to allow employees to work on a hybrid basis, spending 40% of working hours at home. Jadhav reviewed diversity initiatives. Currently, women comprise 29% of senior management positions and minorities comprise 21%. Jadhav stated that the firm has targeted a 5-10% increase over the next five years. Over the last year, the fund returned -14.11% net of fees. This outperformed the benchmark return of -15.95. She noted that the portfolio was somewhat more cautious on interest rate positioning than the benchmark. She noted that all Russian bonds were removed from the index in the first quarter of 2022. The portfolio saw good returns from currency positions, benefitting from underweight positions in Russia and Turkey. Latin America was the strongest performing region, with bonds from Peru, Brazil and Mexico all showing good returns. Looking forward, Neely stated that she expects interest rates to continue to rise as central banks move to fight inflation. The portfolio has moved to lengthen durations to lock in higher rates. The portfolio is now holding 15% of the portfolio in cash. The portfolio is looking to buy more Eastern European bonds, which have been hurt by uncertainty over the Russia-Ukraine war. She noted that there appears to be a real desire in Europe to cut Russian energy imports as much as possible, which could have a significant impact on their economy by the end of the year.

Paul Nasser and Kristin Phalen represented Intercontinental Real Estate Corporation. A written portfolio review was submitted to the Board. There have been no changes to the portfolio management or investment strategy. The gross asset value of the fund is \$13.4 billion and consists of 148 properties. The firm is headquartered in Boston. Nasser described the firm's ESG initiatives, noting that the firm is seeking LEED certification on all new construction. The firm is now aGRESB member, which measures overall ESG performance. The fund is now 25.7% leveraged. The firm remains focused on new acquisitions of industrial properties, which have been the best performing asset class over the last year. The portfolio is also looking to acquire or build more apartments. Nasser noted that rents continue to rise sharply throughout the country due to a lack of new housing development. Retail now comprises 1.5% of the portfolio, with Nasser saying that they would be interested in purchasing grocery-anchored retail properties, but that type aside, he would anticipate poor returns from most retail. Offices now comprise 36.3% of the portfolio. This percentage will likely fall as the portfolio shifts more into industrial. Nasser stated that could not predict the long-term potential for offices but noted that many of the companies he works with have shifted permanently to working two days per week from home. He stated that newer buildings, with updated amenities and HVAC, seem to be in high demand. The fund has outperformed the NCREIF benchmark since inception. In the last year, the fund slightly underperformed, returning 23.91% vs the index at 27.26%. Nasser reminded the Board that management fees are calculated only on the initial investment, rather than on current value. Nasser attributed the recent underperformance to the firm having an underweight to industrial. The firm is in the process of closing on several new industrial properties, which should boost performance going forward. He stated that he was aware that Amazon had expressed concern about overexpansion of their distribution centers, but that he still felt that industrial properties, serving e-commerce, would continue to grow.

Tara McCann represented Rockwood Capital. A written review of the portfolio was submitted to the Board. There have been no changes to the management team or fund strategy. Cambridge is currently invested in Fund IX, having committed \$18 million in 2013. The fund is well into the harvesting phase. Overall, the fund closed on 23 properties and has now sold 20. The fund closed on the sale of 64 West Colorado on June 15. The fund now has a gross IRR of 16.9%. The fund has set a target to sell the remaining three properties by the end of 2022. McCann reviewed the remaining properties in the portfolio. The Fairmont Olympic Hotel in Seattle is currently open. The fund was able to complete renovations in 2020 while the hotel was shut down due to COVID. It should come to market soon. South Coast Collection is a retail center in Costa Mesa, CA. It is currently on the market and should be sold within months. The Cannery is a retail/office property in Campbell, CA. It should come to market in September.

Linda Rowland and Brad Shepherd represented Landmark Partners. A written portfolio report was submitted to the Board. The Board is invested in two secondary funds, Real Estate Fund VI and Private Equity Fund XV. The real estate fund closed in 2011. It consists mainly of US-based funds, with some investments in Europe and Asia. The portfolio closed 30 transactions, acquiring 83 partnership interests. It is generating a net IRR of 18%. The total fund invested \$681 million and has now made \$969 million in distributions. The remaining value of the fund is \$37 million, consisting of about 20 remaining positions. Shepherd said that the fund was in negotiations to sell these tail end assets within the next month.

The private equity fund closed in 2014 and has now finalized its investments. The portfolio closed 60 transactions, acquiring 183 partnership interests. It is generating a net IRR of 14.9%. The fund raised \$3.3 billion, called \$2.6 billion and has made \$2.5 billion in distributions. The portfolio is well diversified in terms of vintage year, industry and strategy. The fund should pay out 75% of remaining value within the next three years. Landmark is currently raising money for Real Estate Fund IX, which will have a final close in early 2022. They are also raising money for Private Equity Fund XVII.

Gardner asked about planning for maintaining the allocation to real estate as closed-end funds wind down. Ghazarian stated that the system is currently in-line with the target allocation, and the funds coming back from Rockwood, Penn Square and Landmark would likely be minimal. He did not anticipate a need to seek a new real estate investment within the next year. He noted that the PRIT real estate fund offers liquidity within 30 days, should the system need to draw down funds.

John Albro represented Penn Square Real Estate. A written review of the portfolio was presented to the Board. Albro stated that Terry Ahern has ceased day-to-day work at Townsend but remains as Chairman of the Board. Anthony Frammartino will succeed him as CEO. The present fund will terminate within the next eighteen months. The fund has now returned \$5.6 million on \$3.4 million in contributed capital. Albro projected the fund would end at a 1.8x multiple. There are 13 active investments remaining in the portfolio, although three of those investments make up 76% of the fund value. Albro reviewed the largest holding remaining in the portfolio. The CITIC China Retail Fund consists of three malls. The last year has been difficult as China has implemented lockdowns at various times to control COVID. He also discussed the VBI Brazil Real Estate Fund, which is a more distressed situation. This fund was hurt by a difficult situation in Brazil and by currency effects. He also reviewed Waterton, which is a USA-based apartment portfolio. This fund has done well and is in the process of liquidating, with only one property left in that fund.

Ghazarian resumed discussion on the Emerging Markets equity manager search. He noted that RBC and Acadian have shown good downside protection, in a very volatile asset class. The last six months have seen stark differences in performance between different EM managers, as funds with little exposure to Russia outperformed. The Chairman stated that he would like to defer action until after reviewing results from the second quarter of 2022. Gardner stated that he would be prepared to identify candidates for interviews right away. Ghazarian stated that the review deadline was approaching, and the Board should try to make a hiring decision within the next three months, so as to have a new contract signed by the end of the year. Gardner suggested interviewing Aberdeen and RBC, given that Segal currently uses RBC for fully-managed clients. He also stated that he would be open to placing all the money into an index fund. Gardner moved to schedule interviews with Aberdeen and RBC, requesting that the interviews be scheduled after second quarter numbers can be reviewed. Shinkwin seconded the motion and it was approved on a 4-0 vote with Chamblin-Foster absent. Ghazarian stated that if interviews were conducted in the last week of July or first week of August, it should be possible to review the second quarter numbers and keep to a short schedule for making a final decision. Kale urged that Board members ask pointed questions about their concerns around volatility and long term returns. Gardner stated that he intends to ask about the benefits of active management over indexing, and he asked that Ghazarian provide some information on how fees might impact returns.

Ghazarian reviewed a written analysis from Segal of candidates for the Emerging Markets Equity search. There were 24 responses to the RFP. There were three responses from women/minority owned firms, which were Globeflex, Sprucegrove and Strategic Global Advisors. The incumbent manager is RBC. The current style is a core, all cap fund. Six responses were rated as Highly Advantageous. They were Acadian, Altrinsic, Globeflex, Marathon, RBC and Sprucegrove. Six others were rated as Advantageous. They were Aristotle, Dimensional, LSV, Schroders, Trinity Street and Walter Scott. All the others were rated as Not Advantageous. Ghazarian noted that several managers with very strong performance were rated as Advantageous due to market cap bias. Aristotle, Schroders and Trinity Street are all large cap managers, rather than all cap. Ghazarian reported that Segal uses Schroders for their fully-

managed clients, and that Segal has generally found that large cap managers have performed better than all cap managers in this asset class. Acadian has very strong performance over last ten years. They have returned 9.66% annually, vs. RBC at 8.95%. Ghazarian stated that Acadian is a quant manager, with some fundamental overlay, and much less concentrated than RBC, with about 200 stocks in their portfolio. GlobeFlex has returned 7.16% annually, and Sprucegrove 5.56%. Ghazarian recommended interviewing Acadian, particularly given the Board's concern over succession planning at RBC. He also reviewed an analysis of the firms' volatility, which shows that the RBC portfolio has significantly more risk than any of the other candidates. Acadian has generated higher returns with less risk. Ghazarian also reviewed performance history from the large cap managers. Over the last ten years, Trinity Street has returned 10.42% annually. Schroeder has returned 8.5% and Aristotle 7.19%. In reviewing a risk analysis, Trinity does have more risk than the other two managers. The Chairman stated that he would favor interviewing Acadian, Trinity Street and Aristotle. He noted that Acadian and Trinity Street have excellent returns. He also stated that he felt that Aristotle appears to have a good balance of risk vs. return. He stated that he did not feel that it was necessary to interview RBC, as he was not impressed with their recent returns. Gardner stated that that he agreed it was not necessary to interview RBC but that he would like to include another all cap manager in the interview process. Ghazarian recommended that if RBC were excluded, then Marathon has the next best returns over the long term, with reasonable risk. Gardner moved to schedule interviews with Acadian, Aristotle, Marathon and Trinity Street. Shinkwin seconded the motion and it carried on a 4-0 vote with Chamblin-Foster absent. The Board agreed to schedule a special meeting to conduct the interviews in early August.

McCann moved to adjourn at 4:05 PM.